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AT&T  
ANALYST  
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2012

# Laying a Foundation for Future Growth

November 7, 2012

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# Welcome

Susan Johnson

*Senior Vice President Investor Relations*

*AT&T*



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# Agenda

**Randall Stephenson**     *Introduction*

*Chairman and Chief Executive Officer*

.....

**John Stankey**     *Strategy Overview*

*Group President & Chief Strategy Officer*

.....

**John Donovan**     *Building the Premier Network*

*Sr. Exec. VP - AT&T Technology & Network Operations*

.....

**Ralph de la Vega**     *Mobility Growth Opportunities*

*President & Chief Executive Officer - Mobility*

.....

**Andy Geisse**     *Business Growth Opportunities*

*Chief Executive Officer - AT&T Business Solutions*

.....

**John Stephens**     *Financial Summary*

*Sr. Exec. VP & Chief Financial Officer*





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Randall Stephenson

*Chairman and Chief Executive Officer*

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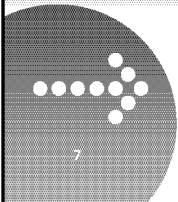
# Key Drivers

	Annualized Revenues	YTD Growth	
Mobile data	\$26.6B	19.0%	<ul style="list-style-type: none"> <li>• Mobile Share adoption strong</li> <li>• High-quality LTE architecture</li> </ul>
U-verse	\$9.5B	38.6%	<ul style="list-style-type: none"> <li>• Throughputs continue to climb</li> <li>• Robust TV and broadband growth</li> </ul>
Strategic Bus Services (VPN, Ethernet, hosting)	\$6.4B	14.5%	<ul style="list-style-type: none"> <li>• Cloud and security next big growth opportunities</li> </ul>



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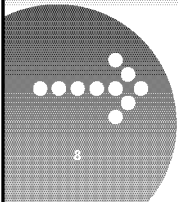


**81% of AT&T's revenues now from wireless, wireline data and managed IT services - growing >6%**



# Key Drivers

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***The initiatives we're announcing today expand these growth platforms***

# *Project Velocity IP – VIP*

1

*Plans to extend 4G LTE build to  
300M POPs by end of 2014*

---

- *WCS and other spectrum acquisitions  
provide nationwide capacity for  
4G LTE growth*



# *Project Velocity IP – VIP*

2

*Plans to deliver high speed IP  
broadband to 75% of wireline  
customer locations*

---

- *U-verse + U-verse IPDSLAM  
to 57M customer locations*

1

*Plans to extend 4G  
LTE build to 300M  
POPs by end of  
2014*

.....

# *Project Velocity IP – VIP*

**3** *Plans to proactively light up fiber to an additional **1M** business locations*

---

- *50% of the multi-tenant office buildings in our wireline service area*

*Multi-tenant office buildings are those with six or more tenants.*

**1** *Plans to extend 4G LTE build to **300M** POPs by end of 2014*

**2** *Plans to deliver high speed broadband to **75%** of wireline customers locations*

# *Project Velocity IP–VIP*

## **4** *Plans to transition to wired + wireless IP*

- *High-speed IP connectivity to 99%  
of wireline service-area customers*

**1** *Plans to extend 4G  
LTE build to 300M  
POPs by end of  
2014*

**2** *Plans to deliver high  
speed broadband to  
75% of wireline  
customers locations*

**3** *Plans to proactively  
light up fiber to an  
additional 1M  
business locations*

# *Project Velocity IP – VIP*

1

*Extend 4G LTE build to 300M POPs by end of 2014*

2

*High speed IP broadband to 75% of wireline customer locations*

3

*Proactively light up fiber to an additional 1M business locations*

4

*Transition to wired + wireless IP*



# Project Velocity IP – VIP

5

## Further optimize capital structure

- Cash generation at record levels
- \$9B in share repurchases, new authorization
- 29th straight year of regular dividend growth
- Refinanced debt
- Multi-year pension funding strategy

*Proposed pension funding pending Department of Labor approval.*

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1

Plans to extend 4G LTE build to 300M POPs by end of 2014

2

Plans to deliver high speed broadband to 75% of wireline customers locations

3

Plans to proactively light up fiber to an additional 1M business locations

4

Plans to transition to wired + wireless IP

# *Project Velocity IP – VIP*

- 1 *Extend 4G LTE build to 300M POPs by end of 2014*
- 2 *High speed IP broadband to 75% of wireline customer locations*
- 3 *Proactively light up fiber to an additional 1M business locations*
- 4 *Transition to wired + wireless IP*
- 5 *Further optimize capital structure*







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# AT&T Strategy Review

John Stankey

*Group President & Chief Strategy Officer*



## Strategic Focus Driven by Five Major Themes

**Deliver**

*Best-in-Class Customer Experience  
in a Data Centric World*

**Expand**

*Value-Added Services through Alliances  
and select Adjacencies*

**Build**

*Premier Wireless  
Assets*

**Extend**

*Competitiveness  
in Broadband*

**Lead**

*in Enterprise  
Connectivity*



## Core Beliefs

### Strategic Themes

Deliver	Best-in-Class Customer Experience in a Data-Driven World	
Expand	Increase Market Penetration Through Acquisition and Select Additions	
Build Premier Wireless Assets	Extend Coverage and Performance in Broadband	Lead in Enterprise Connectivity

# ① *Build Premier Wireless Assets*

Quality, coverage and depth are critical

Strong distribution and a robust device portfolio are important

Demand will continue to pressure capacity



## Core Beliefs

### Strategic Themes

<b>Deliver</b> Best-in-Class Customer Experience in a Data-Driven World		
<b>Expand</b> Increase Market Share through Acquisition and Select Additions		
<b>Build</b> Wireline Wireless Assets	<b>Extend</b> Competitiveness in Broadband	<b>Lead</b> in Enterprise Connectivity

## ② *Extend Competitiveness in Broadband*

Wireline IP broadband is structurally attractive in dense population areas

IP broadband most important product in wireline bundle

AT&T IP broadband will meet customers' growing speed requirements

Significant synergies exist between wireless and wireline assets



## Core Beliefs

### Strategic Themes

<b>Deliver</b> Best-in-Class Customer Experience in a Data-Driven World		
<b>Expand</b> Increase Market Share through Acquisition and Select Additions		
<b>Build</b> Provide Wireless Assets	<b>Extend</b> Expand Coverage in Broadband	<b>Lead</b> in Enterprise Connectivity

# ③ *Lead in Enterprise Connectivity*

Virtualization and mobilization drive need for:

- Ubiquitous, dense wireline footprint
- Solutions that bundle cloud with connectivity
- Symmetrical bandwidth
- Security through active network management



## Core Beliefs

### Strategic Themes

<b>Deliver</b>	Best-in-Class Customer Experience in a Data-Driven World	
<b>Expand</b>	Value-Added Services through Alliances and select Adjacencies	
<b>Build</b>	<b>Extend</b>	<b>Lead</b>
Provide Wireless Assets	Provide Services on Broadband	Provide Enterprise Connectivity

# ④ *Expand Value-Added Services*

Turn-key solutions from service providers

Methodical approach to build capabilities



## Core Beliefs

### Strategic Themes

<b>Deliver</b>	Best-in-Class Customer Experience in a Data Centric World	
<b>Expand</b>	Improve Support Services through Automation and Self-Service Capabilities	
<b>Build</b>	Provide Wireless Assets	<b>Extend</b> Connect customers in the cloud
		<b>Lead</b> in Enterprise Connectivity

# ⑤ *Deliver Best-in-Class Customer Experience in Data Centric World*

Migration to IP-only provides best service experience, simplifies the business and improves cost structure

Customer experience is key to buying decision



## Focus Areas Coming into 2012

### *Spectrum and Capacity Management*

#### ***Strategy to Meet Current and Future Demand***

- Ongoing spectrum acquisition and development
- Capacity enhancements



**Strategy helps position AT&T for next six years**

### *Structure Business for Growth*

#### ***Low Growth and Non-Strategic Assets***

- Ad Solutions
- Rural wireline assets



**Strategy enhances underlying growth and profitability of core assets**

#### ***Other Growth Initiatives***

- Cloud services
- Value-added services



**Position for adjacent growth**





# Spectrum and Capacity Management

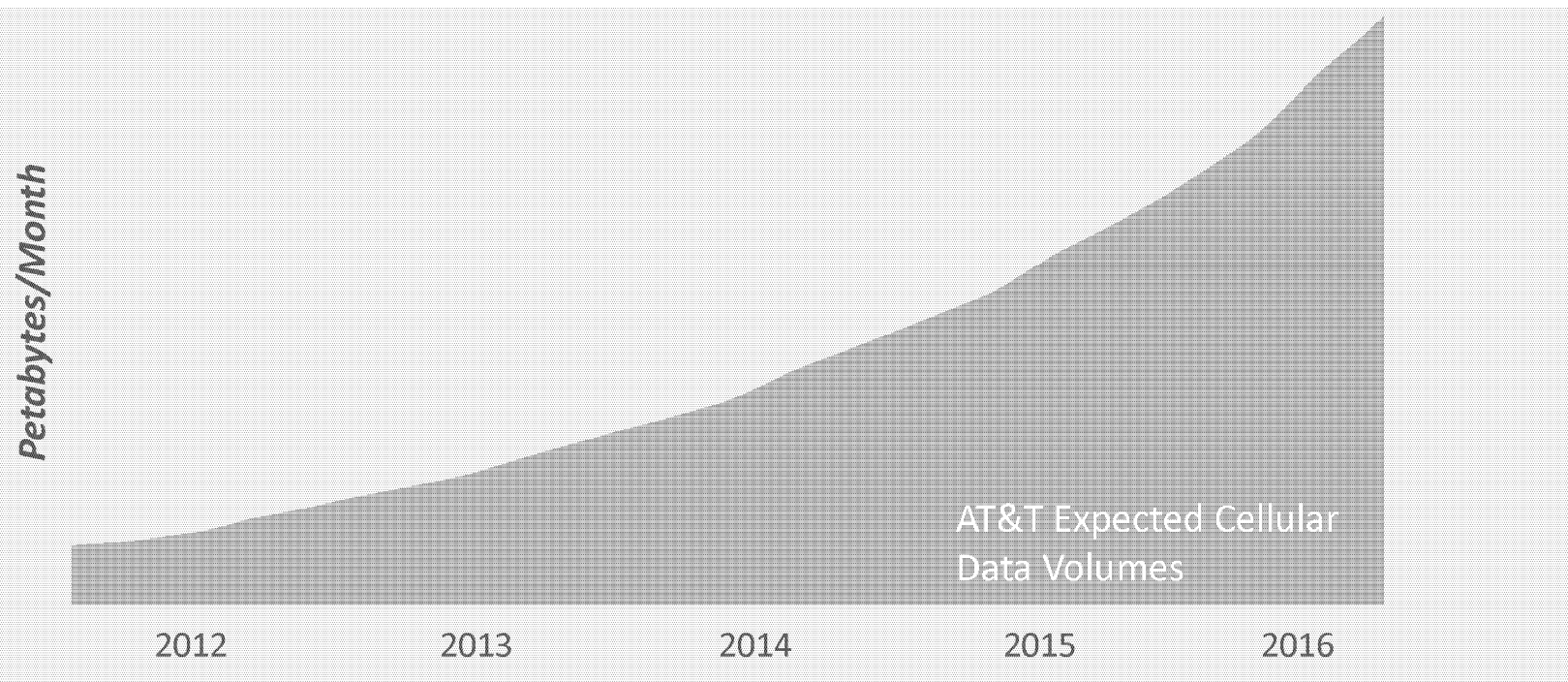
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## Mobile Data Volumes Estimated to Grow 10X Over Five Year Period



## Carefully Planned and Executed Spectrum Strategy Helps Position AT&T for Next Five Years

### 2012-2014

#### ***Near-Term:***

- Aggressively enhance existing portfolio
- **40** transactions year-to-date, some pending regulatory approval

### 2015-2017

#### ***Mid-Term:***

- Nearly **30 MHz** of nationwide **WCS** spectrum\*

### 2018 and Beyond

#### ***Long-Term:***

- FCC auction
- Industry's spectrum needs unresolved
- Fundamental network architecture evolution

***Ongoing:*** Network enhancements & design complement spectrum strategy

*\*Pending FCC Approval*



## Near-Term: Augment Holdings in Existing Bands

**2012-2014**

### **Near-Term:**

- Aggressively enhance existing portfolio
- **40** transactions year-to-date, some pending regulatory approval

**2015-2017**

### **Mid-Term:**

- Nearly **30 MHz** of nationwide **WCS** spectrum

**2018 and Beyond**

### **Long-Term:**

- FCC auction
- Fundamental network architecture evolution
- Industry's spectrum needs unresolved

**Nationwide Spectrum Available for Deployment**  
MHz/Pop

**90**

*2012-2014*

*Early 2012*

**Ongoing:** Network enhancements  
& design complement spectrum strategy



## Mid-Term: Deploy WCS Spectrum

### 2012-2014

#### **Near-Term:**

- Aggressively enhance existing portfolio
- **40** transactions year-to-date, some pending regulatory approval

### 2015-2017

#### **Mid-Term:**

- Nearly **30 MHz** of nationwide **WCS** spectrum\*

### 2018 and Beyond

#### **Long-Term:**

- FCC auction
- Fundamental network architecture evolution
- Industry's spectrum needs unresolved

**Ongoing:** Network enhancements  
& design complement spectrum strategy

**Nationwide Spectrum  
Available for Deployment**

MHz/Pop

**118**

2015-2017  
2012-2014

Early 2012

*\*Pending FCC Approval*



## Well Positioned Even With Long-Term Uncertainties

### 2012-2014

#### ***Near-Term:***

- Aggressively enhance existing portfolio
- **40** transactions year-to-date, some pending regulatory approval

### 2015-2017

#### ***Mid-Term:***

- Nearly **30 MHz** of nationwide **WCS** spectrum\*

### 2018 and Beyond

#### ***Long-Term:***

- FCC auction
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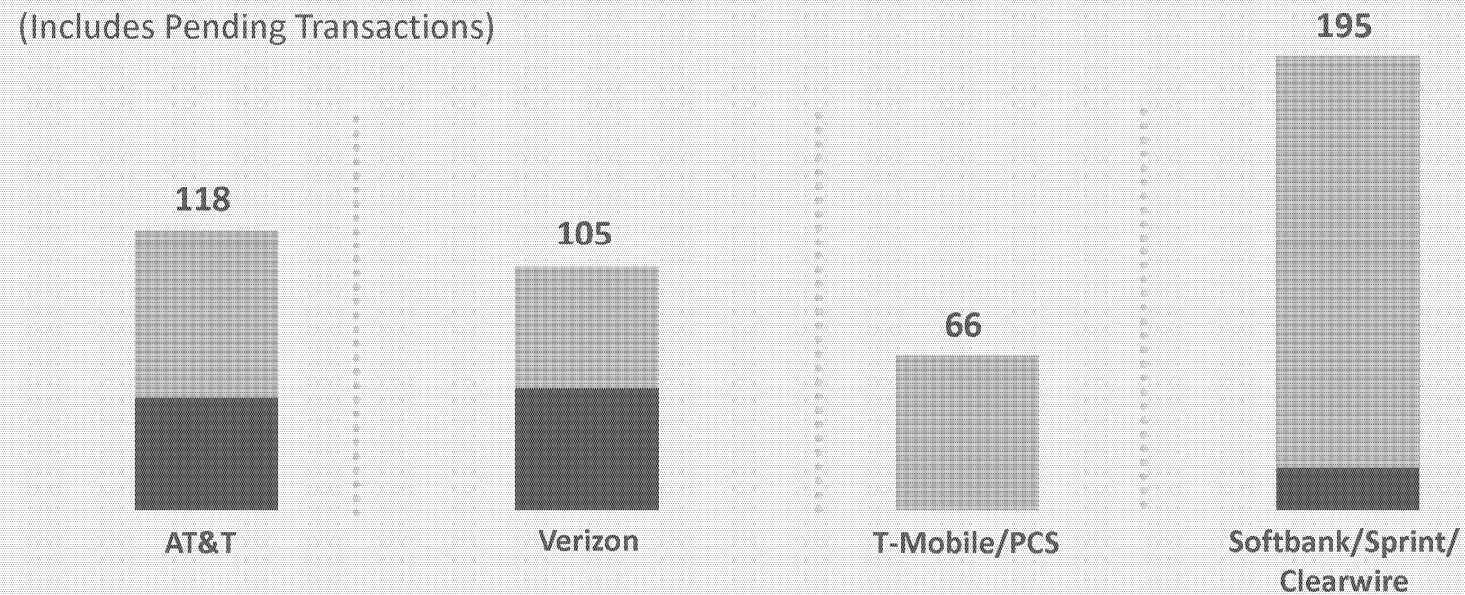
***Ongoing:*** Network enhancements & design complement spectrum strategy

*\*Pending FCC Approval*



## Impressive Spectrum Position Relative to Peers

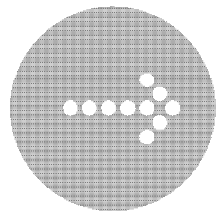
**Nationwide Spectrum (MHz/Pop)**  
(Includes Pending Transactions)



■ Low Band Spectrum    ■ High Band Spectrum

1. AT&T's holdings include pending transactions as of 10/31/12; Some spectrum bands held by AT&T can be used for mobile broadband in future
2. Verizon and T-Mobile spectrum positions do not include potential AWS sales to T-Mobile by Verizon as part of SpectrumCo purchase
3. Sprint spectrum includes Clearwire and a limited amount of WCS
4. Verizon includes both 700 A and B spectrum blocks





*Deploy 4G LTE to 300M POPs*





# Structure Business for Growth

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## Evaluated Wireline Assets to Determine How to Structure for Growth

■ Wireline  
Territory

- ① Separate the entire wireline business
- ② Divest portions of the wireline business

**22-State Wireline  
Service Area**



## Structural Options Do Not Solve Challenges

### ① *Separate Wireline Business*

Valuation multiples in line with industry

Combined entity provides strong balance sheet

Separation costs and dis-synergies substantial

Potential regulatory challenges

Limits flexibility to meet customer needs

### ② *Divest Portions of Wireline Business*

Significant cash flows from rural areas

Strand high-fixed costs

Divested assets would constitute majority of acquirer's business

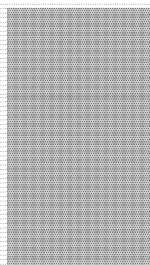
Significant regulatory challenges



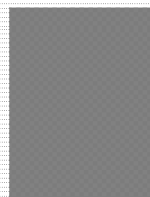
## Research Informed Path Forward to Invest

### IP Broadband Most Important Part of Bundle

*Consumer Satisfaction  
is 10% Higher with Bundle*



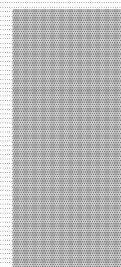
U-verse Broadband and  
Wireless



U-verse Broadband

*Net Promoter Score*

*With Bundle, AT&T Business Captures  
More Share on Larger Revenue Stream*



Combined  
Wireless and  
Wireline



Wireless Only



Wireline Only

*Share of Telecom Spend*



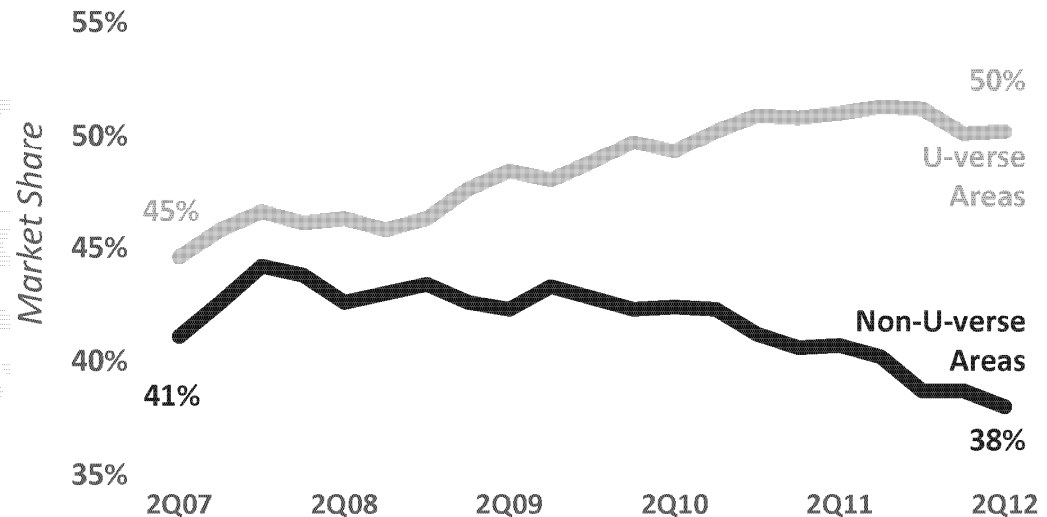
## Proven Record of Success Where We Deploy IP Broadband

Market share growing in U-verse areas

55% of competitive gains from cable

High speed IP broadband leads to voice retention and lower churn

**Where U-verse is Available, Broadband Market Share is Growing**



## U-verse® Delivers Five Years of Growth

- ✓ **\$9.5B** revenues, growing **38%** YOY
- ✓ **7.1M** IP broadband subscribers, with **2.5M** added in last 12 months
- ✓ **4.3M** IPTV subscribers, **760K** gained in last 12 months
- ✓ **18%** U-verse video penetration; **23%** U-verse broadband penetration
- ✓ **~\$170** ARPU for U-verse triple-play



## Project Velocity IP

*Invest in IP Broadband to Reach 75% of Customer Locations,  
Across 35% of Geography*

■ IP Broadband  
■ Non-IP Broadband

Better customer  
experience

Proven success

Attractive financials

As of 12/31/11, we have passed 30.3M living units  
Customer locations include consumer and business  
locations that are marketed to (about 80% of living units)

**22-State Wireline  
Service Area**



## Plan to Expand IP Broadband to 57 Million Customer Locations

### U-verse

Complete, fully integrated solution

Speeds will meet growing customer requirements

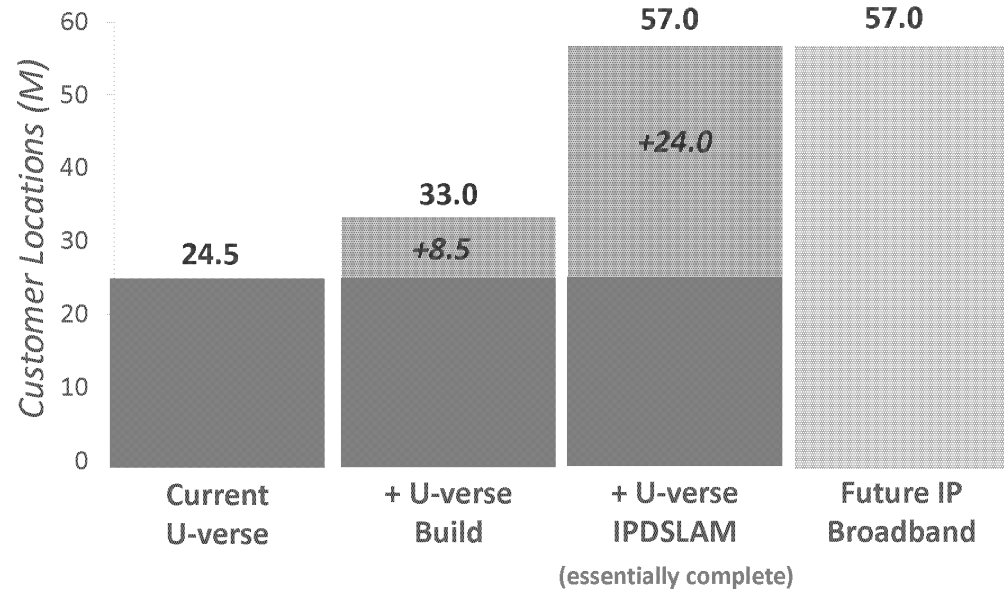
### U-verse IPDSLAM

Competitive broadband with future optionality

High affinity with satellite TV

Positioned if content model changes

### 75% of Customer Locations Covered by IP Broadband





## Plan to Bring Fiber to 1 Million Business Locations

Deployment meets  
customer demand

Accelerated provisioning model

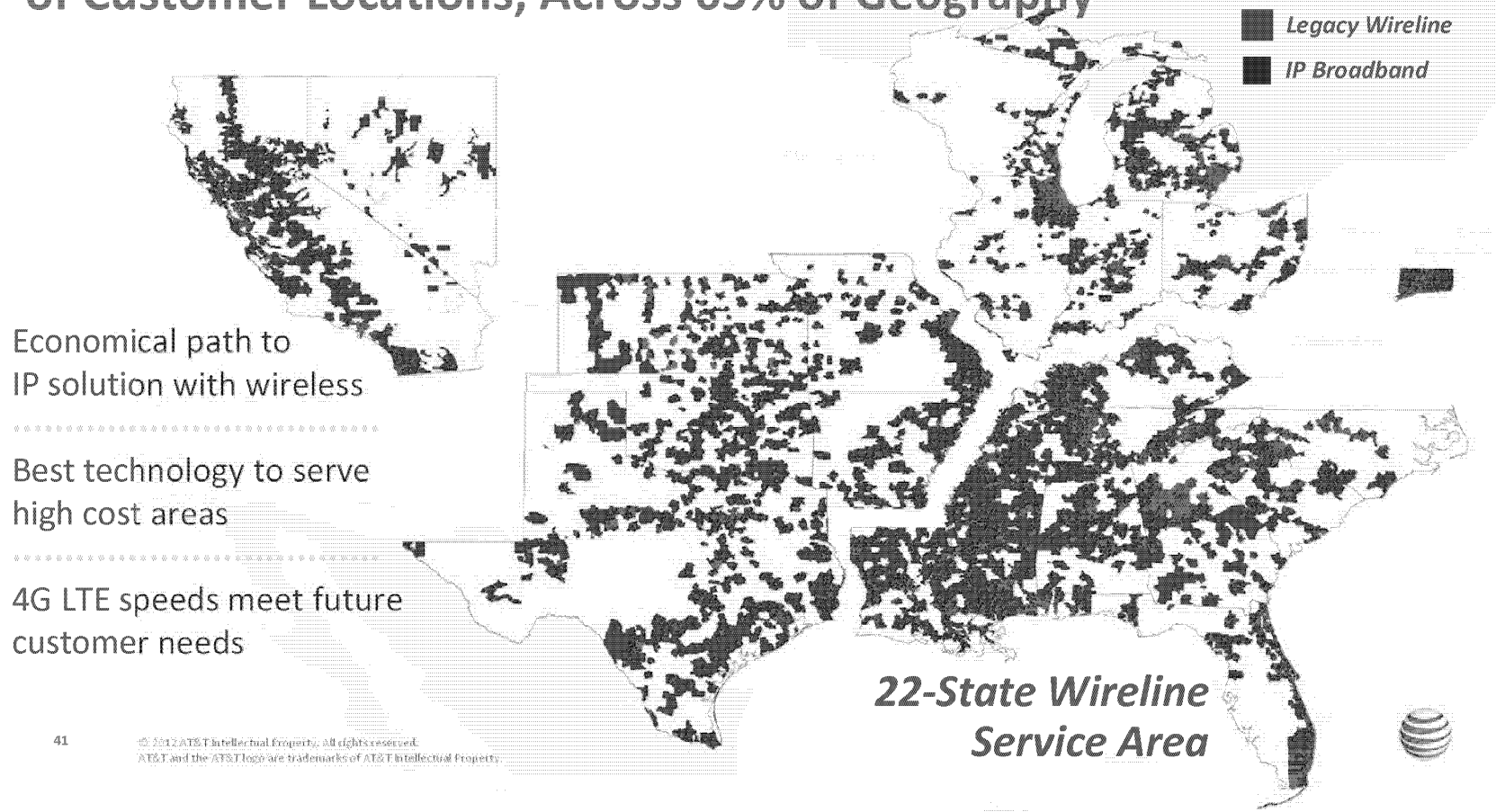
Connectivity for next  
generation services

Enables complete solution

**Proactive Fiber  
Deployment to  
50%<sup>\*</sup>  
of Multi-Tenant  
Buildings**

*\*Buildings with 6+ tenants  
in AT&T's 22-state wireline service area*

## Plan to Alter Legacy Wireline Cost Structure for 25% of Customer Locations, Across 65% of Geography



## Plan to Deliver 4G LTE Wireless IP Solution to 99% of Wireline Customer Locations

Utilize 4G LTE  
technology to deliver  
voice and broadband  
services

World-class customer  
experience

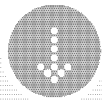
Long-term cost  
reduction

Estimated  
4G LTE Coverage

**22-State Wireline  
Service Area**



## Transition to IP-Only Simplifies Operation, Reduces Cost and Improves Customer Experience



### ***Platform Consolidation***

IT application retirement

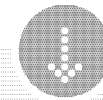
.....  
Reduced installation  
time and ongoing  
maintenance



### ***Product Development***

Shorter development  
cycle times and  
lower product  
development costs

.....  
Product simplification  
and improved quality



### ***Service Delivery***

Service quality  
improvement

.....  
Increased customer  
satisfaction



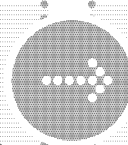
## Strategic Investment is Foundation for Long-Term Growth

### Investment Plan

*IP Broadband: 57M customer locations*

- U-verse expansion of 8.5M to 33M total
- U-verse IPDSLAM to 24M total

*IP Wireless: 300M POPs*



### Results

High speed IP solution for 99%  
of wireline service area

Simplified customer experience

Lower cost structure

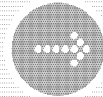
Proven technology, proven success

Strong financial payback

- Solidify competitive position
- Improve ARPU
- Lower churn

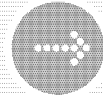
## Building the Platform for the Future

From *analog*



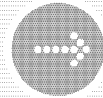
To *digital*

From *voice*



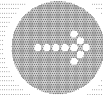
To *data*

From *wired*



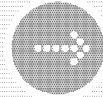
To *wireless*

From *telecom*



To *entertainment*

From *regional*



To *global*





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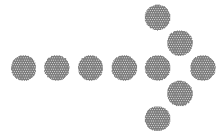
# Building The World's Premier Network

John Donovan

*Sr. Exec. VP - AT&T Technology & Network Operations*



# Agenda



## ***Best Intelligent Global Network***

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## ***Premier Mobile Network***

- 4G LTE
  - Densification
  - Small Cell Technology
- 

## ***Premier Wireline Network***

- IP Broadband
  - Business
- 

## ***Summary***



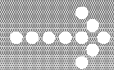
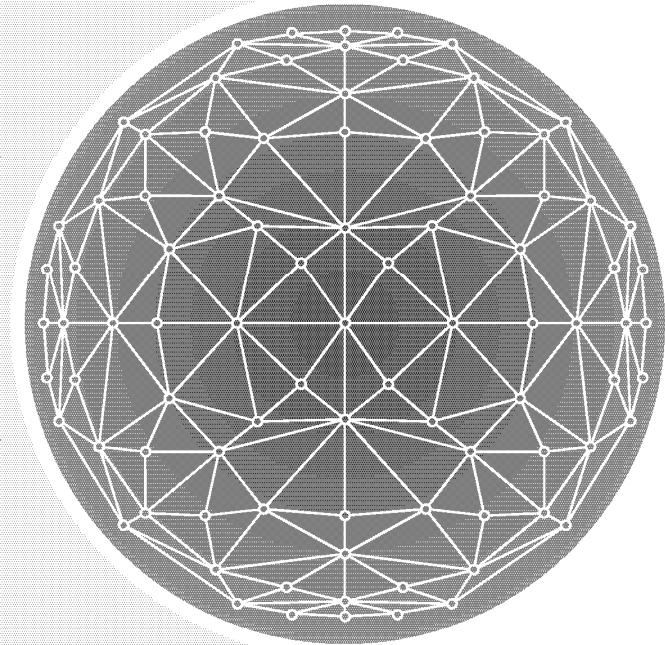
## Best Intelligent Global Network

Built on powerful, advanced IP backbone

Connecting enterprises globally

Award-winning 4G network experience

World-class innovation in AT&T Labs  
and AT&T Foundry



*Building Superior Networks That Evolve and Scale*



## Premier Mobile Network: 4G LTE

*Extending Our Buildout*



*Expand build plan  
to **300M POPs**  
U.S. coverage  
by Year-End 2014*

### ***AT&T 4G Advantages:***

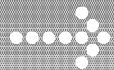
**4G LTE/HSPA+ customer experience**

Only **one radio** drawing handset battery power

Cell site **architecture advantages**

**Ethernet** backhaul for faster connections

**Better design** equals better network, less  
latency, higher reliability

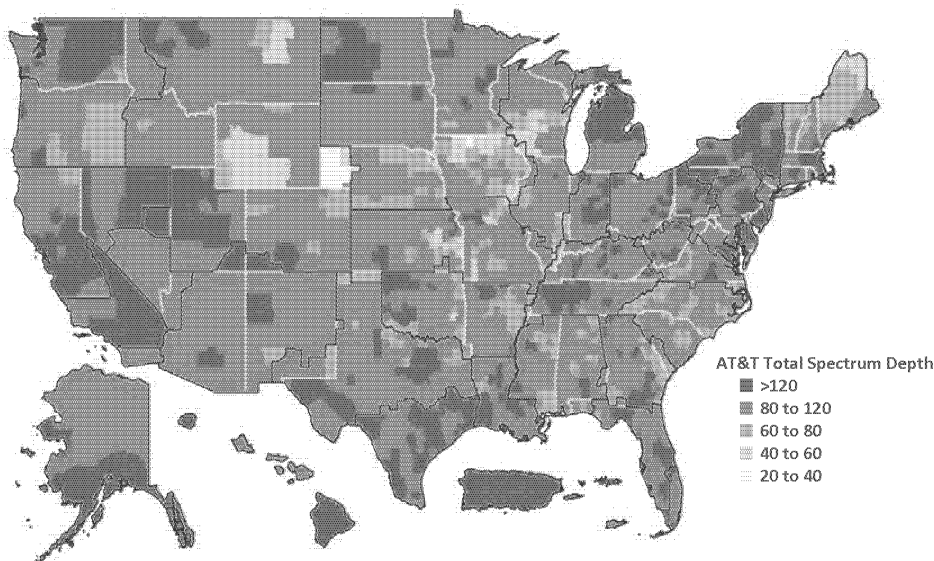


***Creating a Network Platform for Innovation and Customer Experience***



## Premier Mobile Network: Densification

*Supporting Growing Customer Demand*



### *Densification of wireless grid*

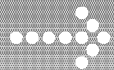
Enhances AT&T's ability to offer  
**best-in-class voice and data services**

Supports launching **Voice over LTE**

### **Multiple technology deployments\*:**

- **10,000+** new macro sites
- **1,000+** distributed antenna systems
- **40,000+** small cells

\*Over plan period



*Lead to Better Customer Experience, Usage and Revenue*



## Premier Mobile Network: Densification

*Small Cells: Delivering Flexible Coverage Where It's Most Needed*

Improve **spectrum efficiencies**

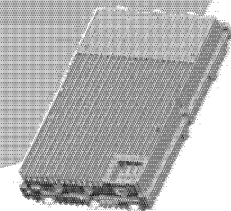
**Cost efficient** radio access networks

Improve in-building **coverage**

**Multi-technology UMTS/HSPA+/LTE/Wi-Fi**

- Initially 3G UMTS and 4G HSPA+
  - 4Q12: First field application
  - 1Q13: Start general deployment
- 2014: Future evolution to 4G LTE and Wi-Fi

**50+%**  
*of densification  
program to use Small  
Cell Technology  
by 2015*



# Building the Premier Wireline Network

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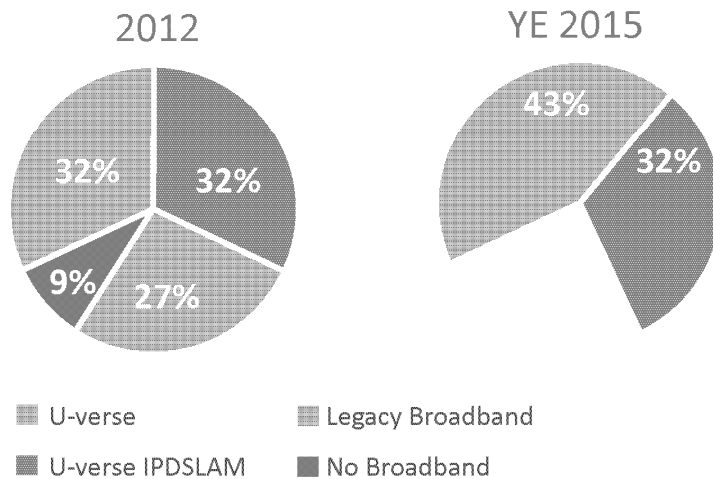
AT&T ANALYST CONFERENCE 2012



## Investing to Expand Premier Wireline Network

*Increase IP Broadband Coverage and Speeds*

% Customer Locations\* by Broadband Capability



\*Customer Locations represent approximately 80% of living units passed

### Expand competitive offering

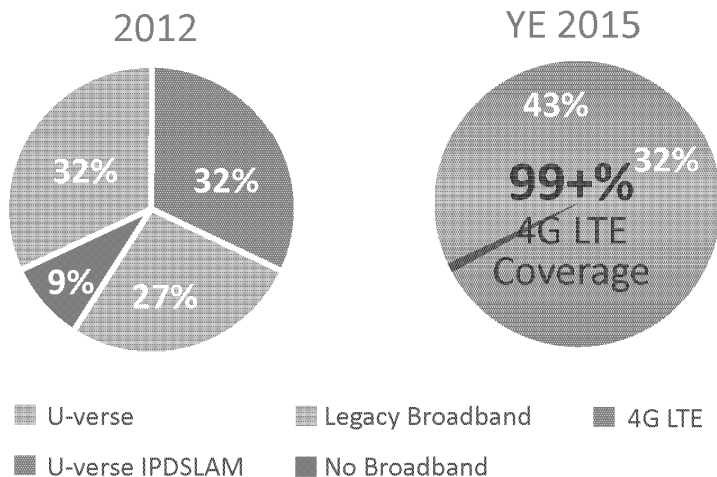
- U-verse: Award-winning TV and broadband platform
- Increase in **U-verse customer locations by one-third**
- Increased **IP broadband speeds**



## Investing to Expand Premier Wireline Network

*Increase IP Broadband Coverage and Speeds*

% Customer Locations\* by Broadband Capability



\*Customer Locations represent approximately 80% of living units passed

### Expand competitive offering

- U-verse: Award-winning TV and broadband platform
- Increase in **U-verse customer locations by one-third**
- Increased **IP broadband speeds**

**4G LTE available to 99+%**  
of customer locations in our wireline service area

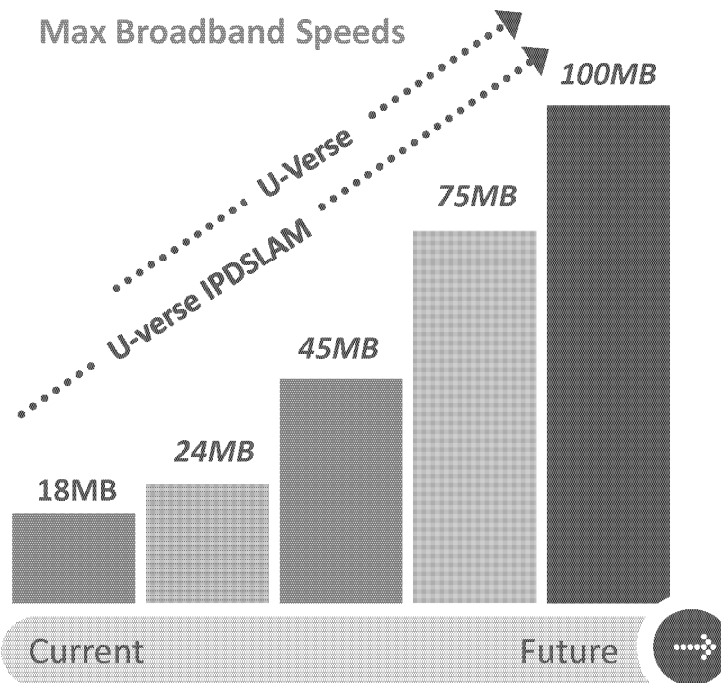
### Path to IP only



## Premier Wireline Network

### *Speed Enhancing Technologies*

Max Broadband Speeds



**Pair Bonding:** For additional bandwidth

**17MHz:** 6 frequency bands instead of 4

**Vectoring:** Cancel effects of crosstalk noise

**Small Form Module:** Shorten loop length for speed and reaching additional customers

**Rate Adaptive:** Selection of the "best" available rate



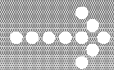
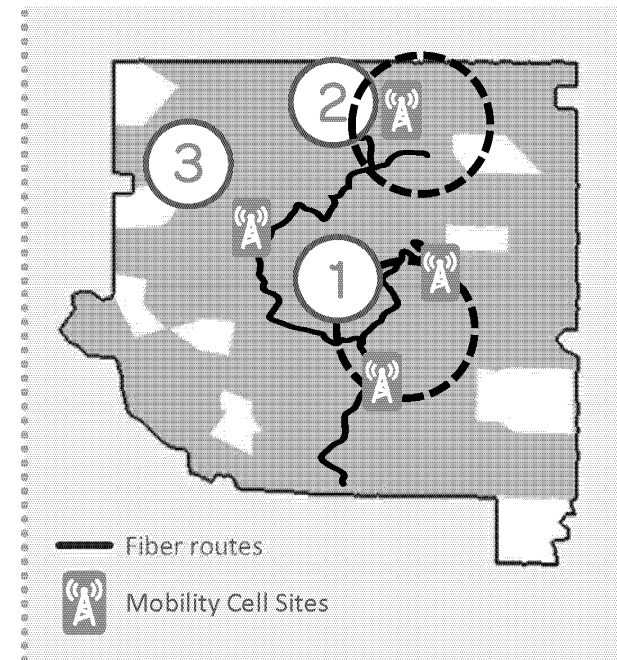


## Project Velocity IP Example: Eureka Springs, Arkansas

- 1 Expand broadband with **IP technology** in town centers
- 2 Extend IP broadband to remote population centers with **fiber**
- 3 Deliver voice and data services via **4G LTE**

### Expected Results

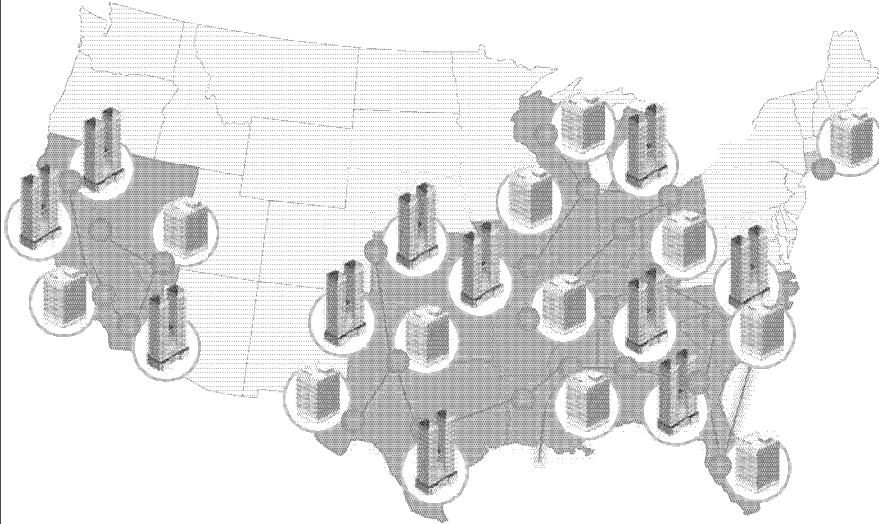
- Competitive IP broadband to **99% of customer locations**
- Retain substantial **business revenue**
- Platform for **consumer growth**



*IP = Reduced Cost, Increased Competitiveness*



## Premier Wireline Network for Business: Fiber to 1M Business Locations



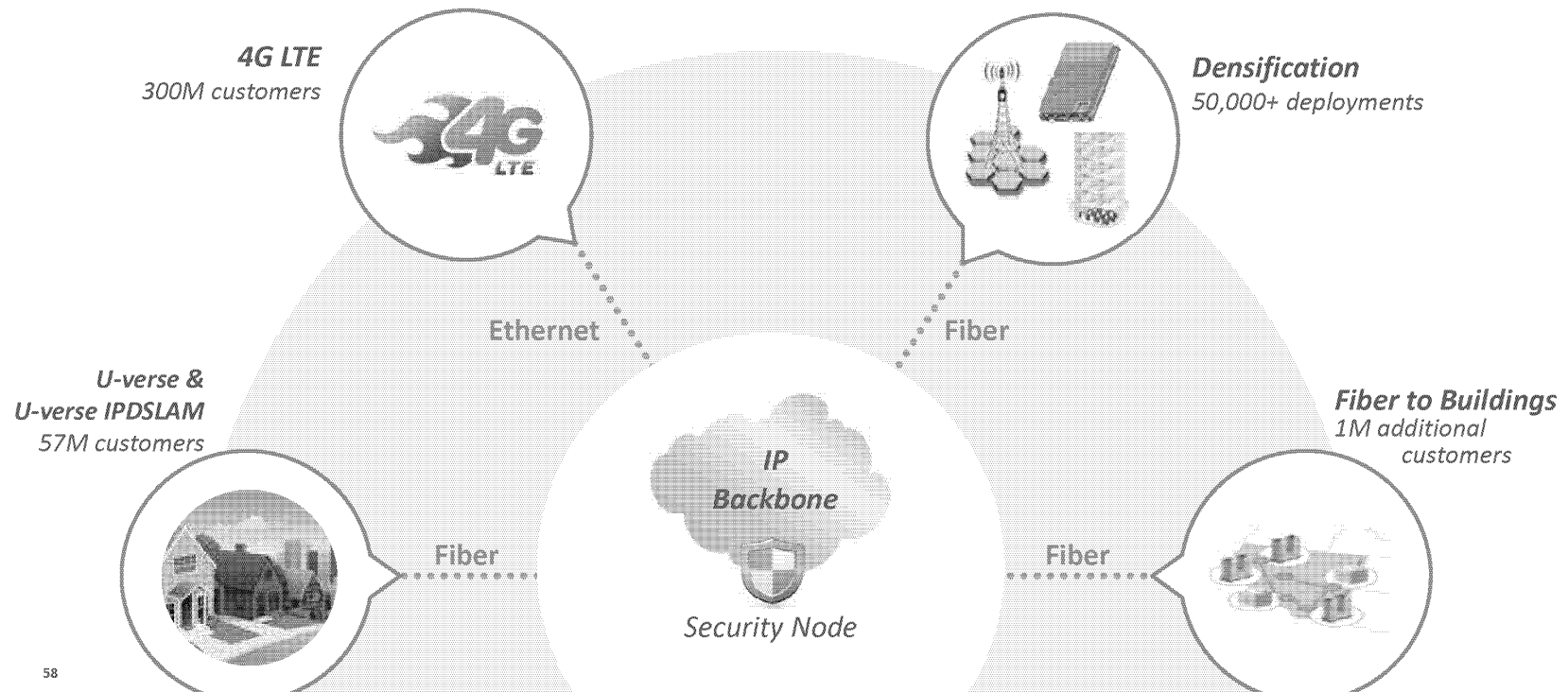
*Proactively expand fiber to 50%  
of multi-tenant buildings in wireline  
service area*

### *Enabling Platform Solutions*

- **Distributed Antenna System:** Expand wireless network and technology upgrades
- **Premier Model of Global Network Security:** Network-based security reduces the need for end users to manage their perimeter
- **Cloud Platform:** Offer competitive services

## AT&T World's Premier Network

*IP Backbone + Integrated Assets + Superior Quality + Premier Security*



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*Best-in-Class Customer Experience*



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CONFERENCE  
2012

# Growing the Mobility Business

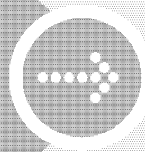
Ralph de la Vega

*President & Chief Executive Officer - Mobility*



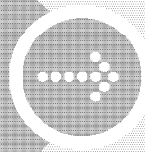
## Growing the Mobility Business

### New Products & Services



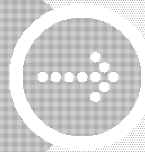
Digital Life  
Mobile Premise Solutions  
Mobile Payments: Isis  
Connected Car

### Premier Data / Device Platform



Data access revenue growth  
Usage based pricing (tiered & Mobile Share)

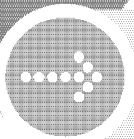
### Premier Mobile Network



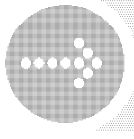
Improved spectrum efficiency  
Improved churn  
Improved costs/margins



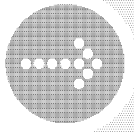
## *Delivering Record Metrics*



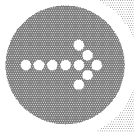
*Strong Revenue Growth*



*Record Subscriber Growth*



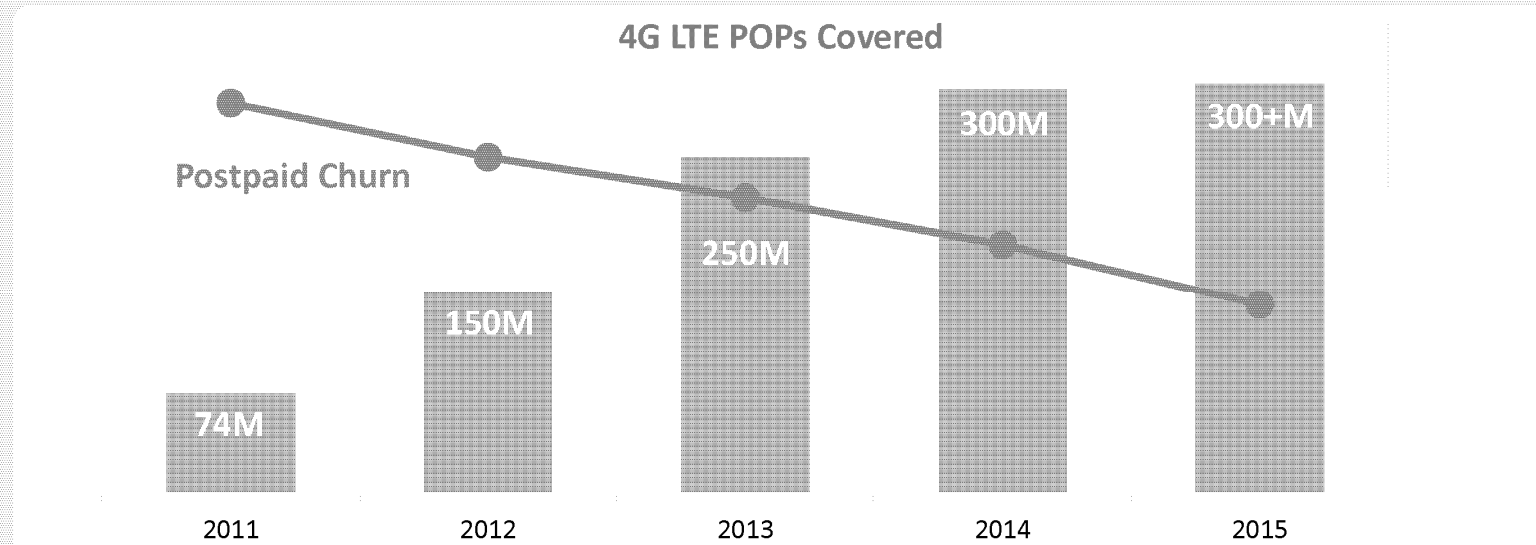
*Solid Margin Growth*



*Record Low Postpaid Churn*



## Network Drives Churn Improvement

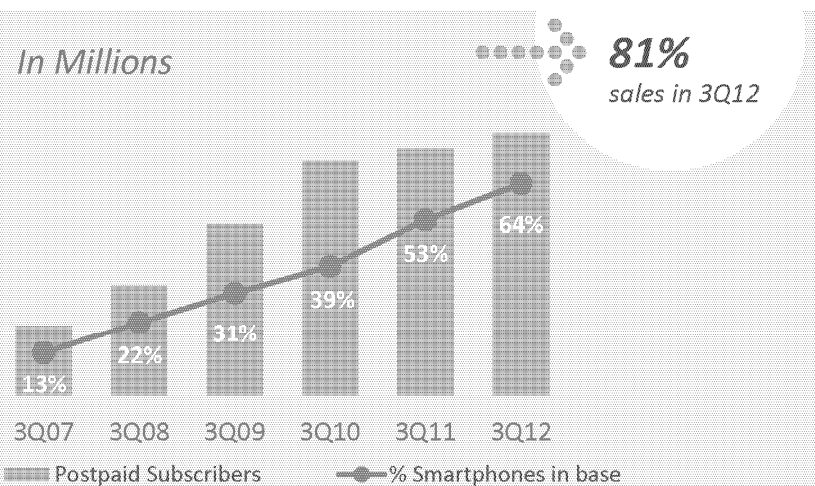


***Record Low Postpaid Churn Projected by 2015***



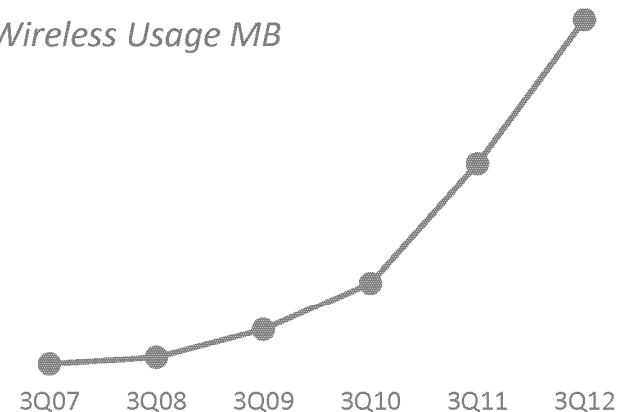
## Smartphone Leadership Drives Data Usage

*In Millions*



***In past 5 years, the smartphone base has grown by more than 500%.***

*Wireless Usage MB*



***In the past 5 years, data usage has grown by ~25,000%.***



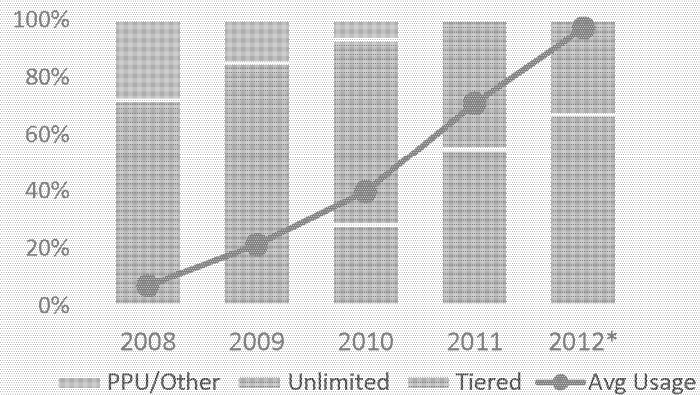
***Expect smartphones to comprise 90% of postpaid phone base by 2015***



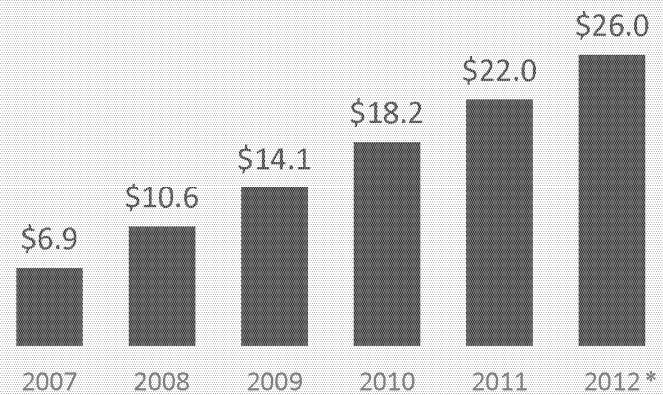


## Usage Drives Revenue Growth

### Data Plan Mix Shifts to Tiered



### Data Revenue (In billions)



*Almost two-thirds of postpaid smartphone subs on tiered data plans by EOY 2012*

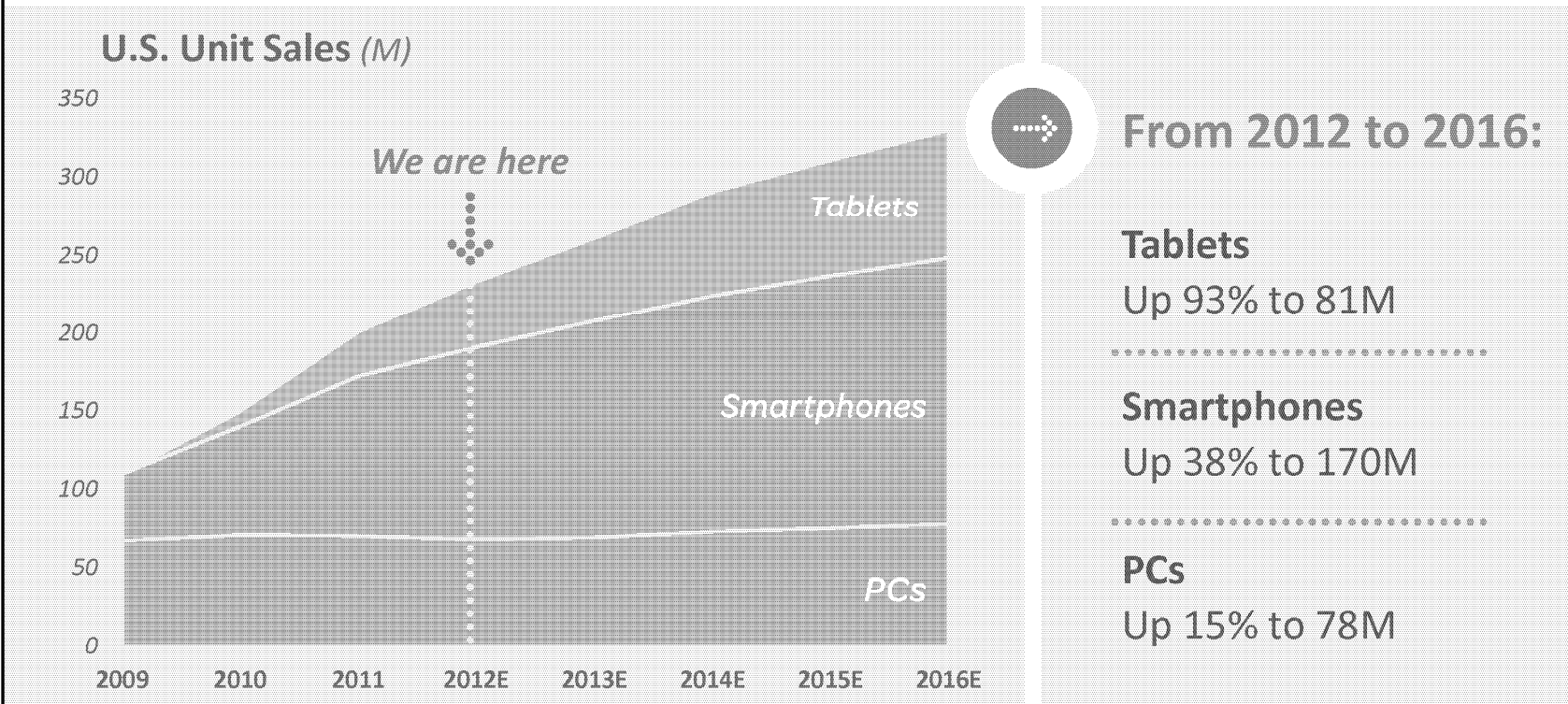
\*Projected EOY 2012



*Data revenues have more than tripled in the past 5 years.*



## Smartphone and Tablet Sales Drive Future Growth



Source: Strategy Analytics, Smartphones, Jun. 2012; Tablets, Aug. 2012

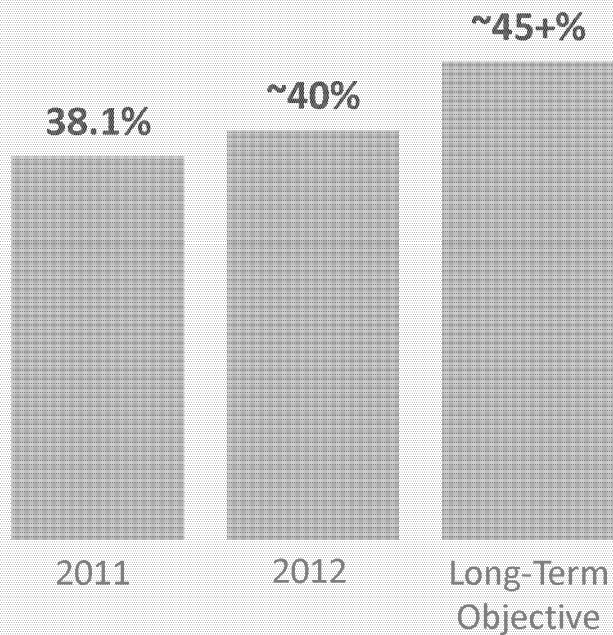
65

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## Growing Wireless Margins

### Wireless EBITDA Service Margins



### Strong Revenue Growth

- Continued subscriber growth
- Increasing smartphone penetration
- Pricing and plan changes

### Cost Structure Improvements

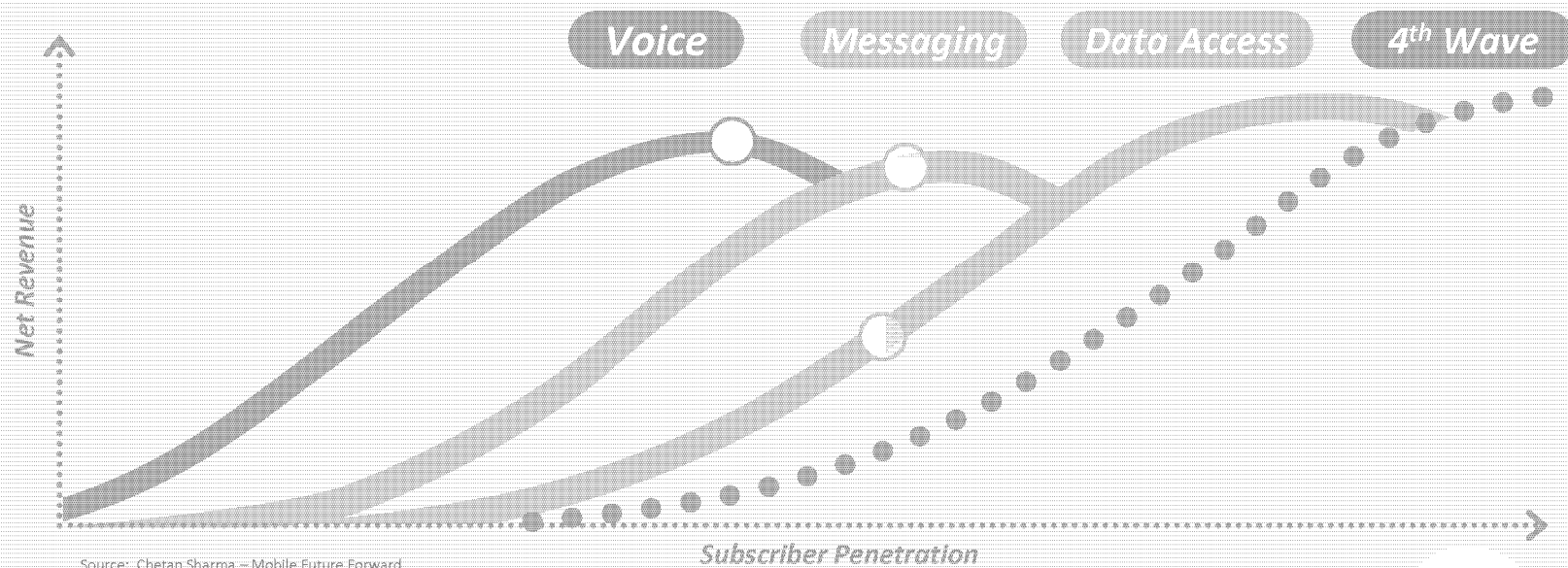
- Network efficiencies
- Sales and channel optimization
- Customer experience



## Delivering Strong Revenue and Record Metrics



## Growing our Mobility Business



**Multiple New \$B Business Opportunities**

## Digital Life

### Summary

- First ever nationwide, all IP-based home security & home automation
- \$18B industry in 2011
- Industry margins 35-40%
- Strong integration with wireless

Net Revenue

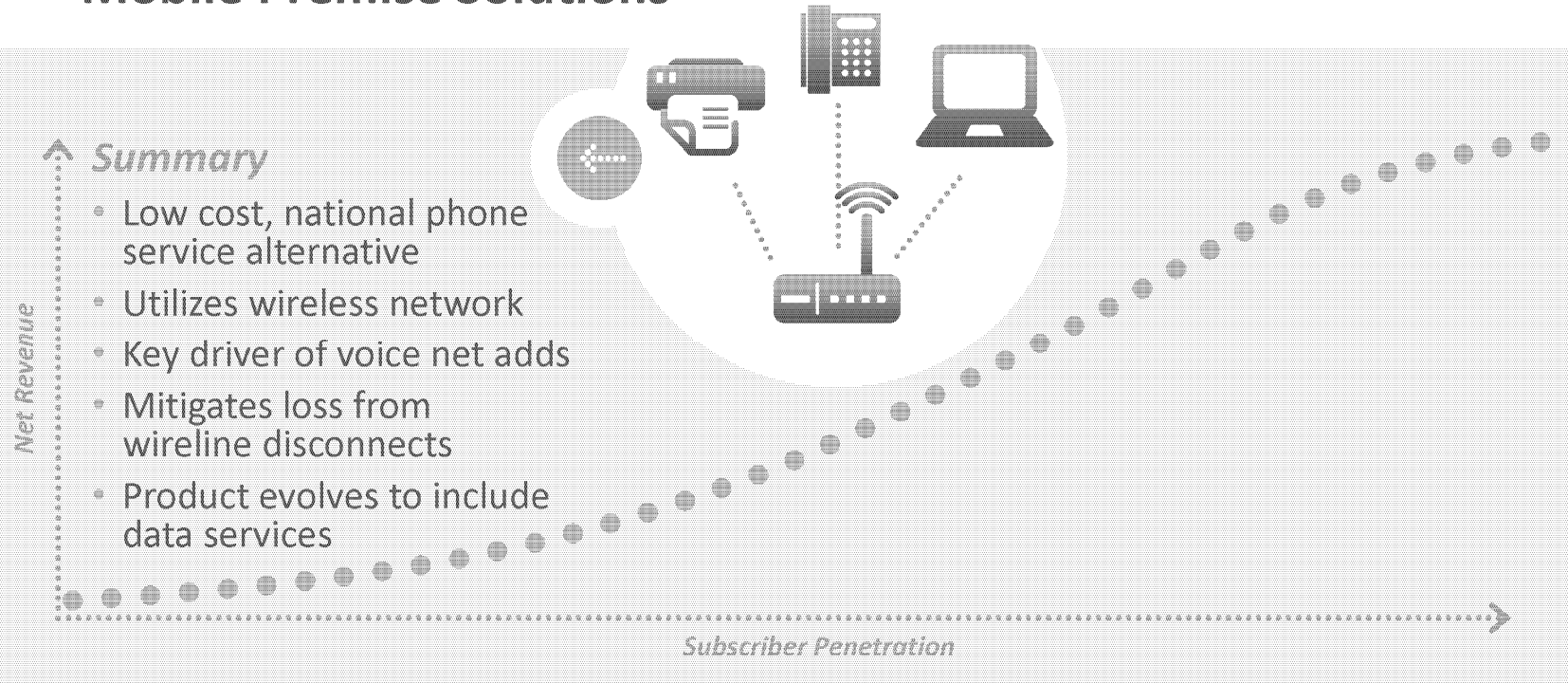
Subscriber Penetration



# Digital Life

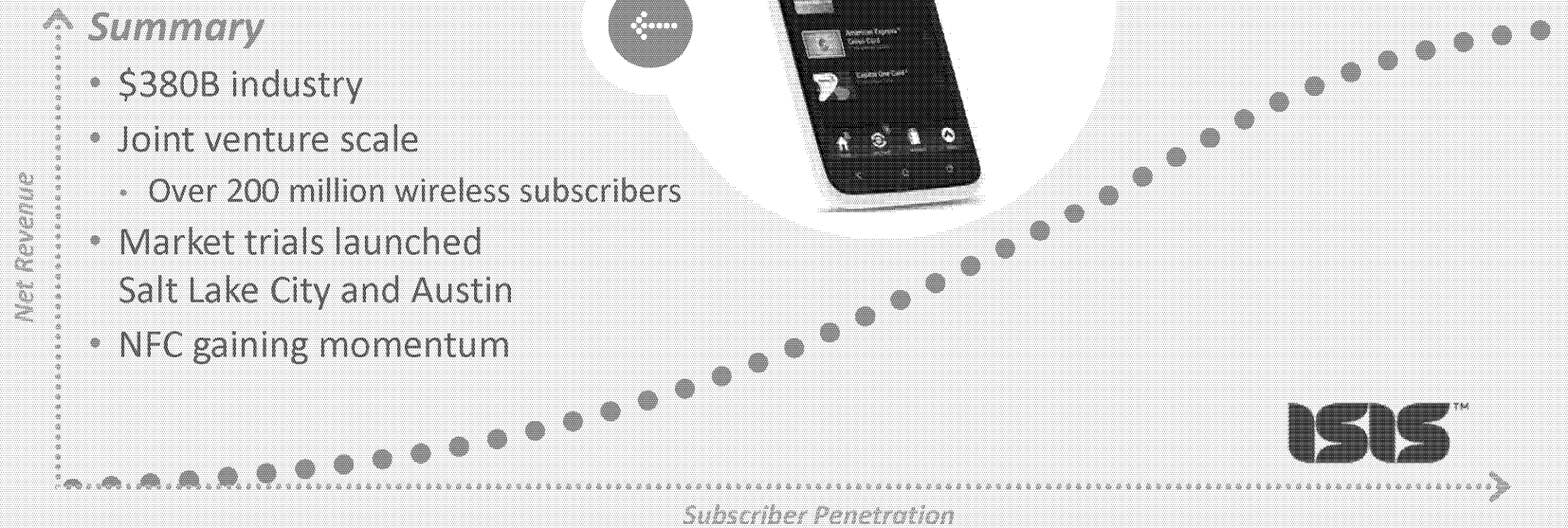


## Mobile Premise Solutions





## Mobile Payments



Source: First Annapolis; Company reports; BCG commerce analysis



# Isis



## Industry Payments

- 1.5 Billion Cards
- \$3.5T Spend
- \$180B Card Revenue

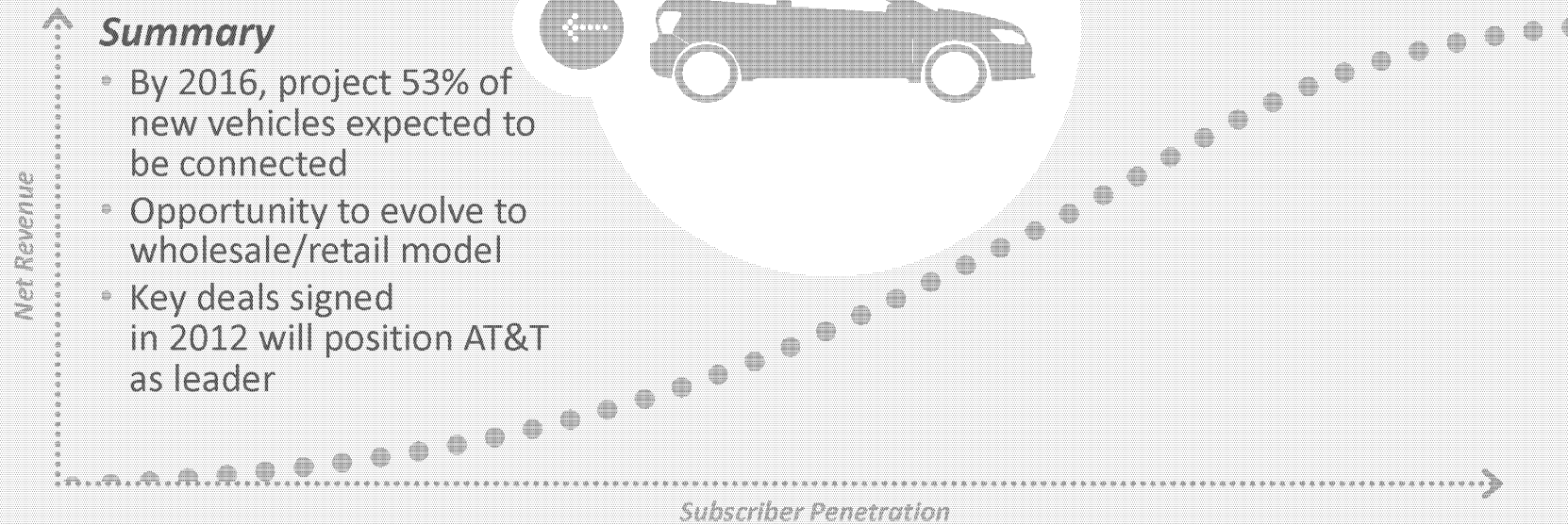
Isis enables banks' relationships with mobile customers

## Industry Commerce

- ~\$200B retail advertising
- 3B coupons redeemed per year
- ~2B Loyalty program members

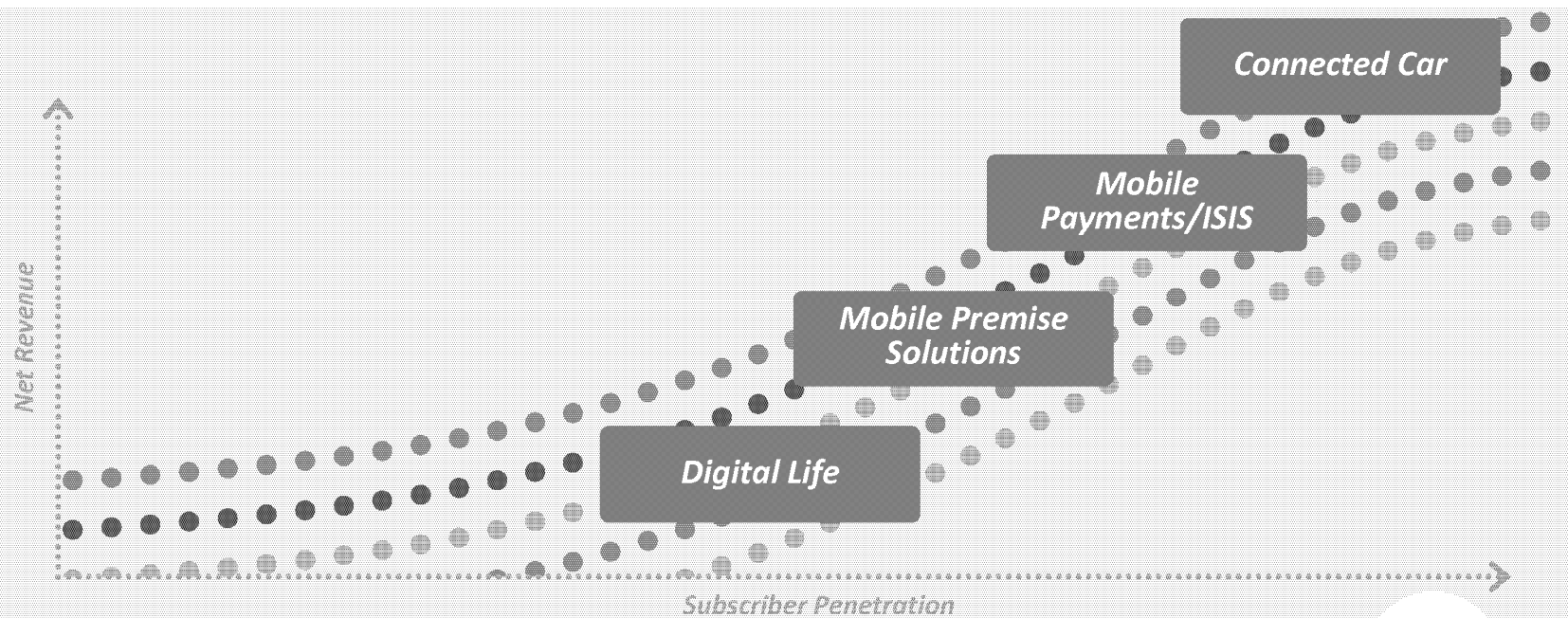
Advertisers reach customers and influence purchase decisions through Isis

## Connected Car





## Growing our Mobility Business



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***Multiple New \$B Business Opportunities***



## *Growing the Mobility Business*



**New Products & Services**



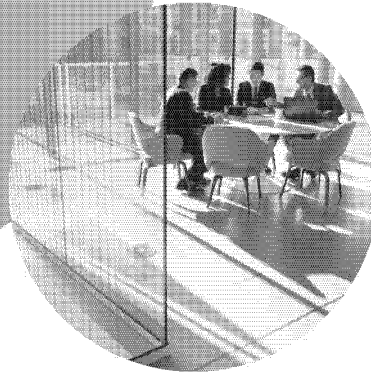
**Premier Data/Device Platform**



**Premier Mobile Network**



# AT&T ANALYST CONFERENCE 2012



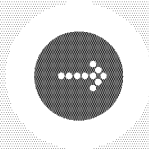
## Business Growth Opportunities

Andy Geisse

*Chief Executive Officer - AT&T Business Solutions*



# *AT&T Business Overview*



**Solutions: Wired and Wireless**



**3.5M Customer Base**



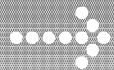
**All of Fortune 1000**



**Manage Services in 226 Countries**



**Outpacing competitors in  
Strategic Services**



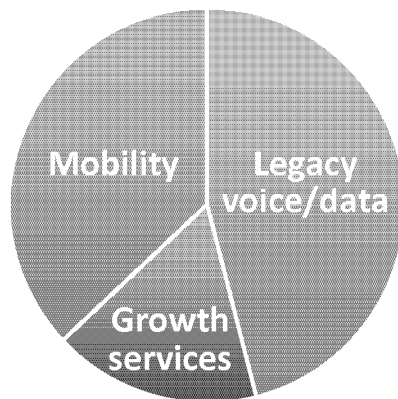
## *Strong Margin Performance*



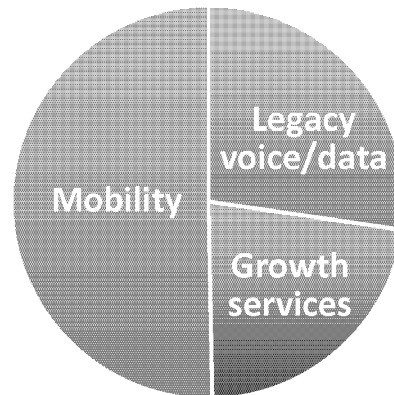


## AT&T Business Revenue

### *Total Business Customer Spend*



**2010**



**2015**

*Estimated*

Strategic Growth Services continues to grow, partially offsetting declines in legacy voice and data

Businesses are mobilizing everything

Integrated sales team to provide total solutions



## Customer Trends Driving Growth Strategy



## Customer Trends Driving Growth Strategy



**3 Deliver integrated solutions**  
[Mobility Solutions, Unified Communications, AT&T For Health]

**2 Differentiate with platforms**  
[Security, Cloud, API]

**1 Maximize our core strengths**  
[VPN, Ethernet, LTE]



1

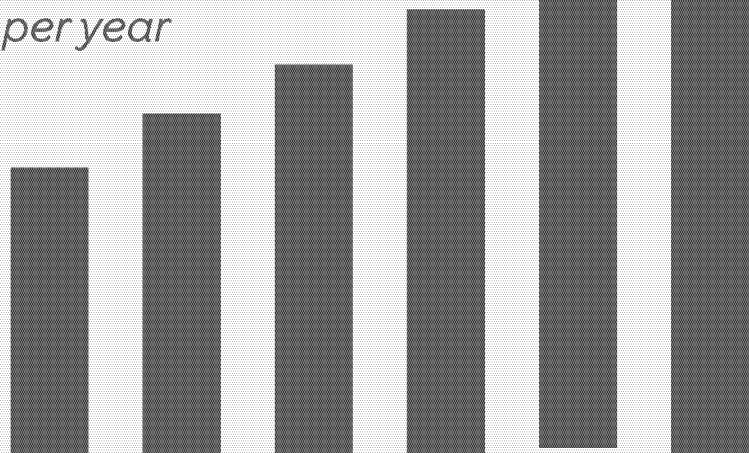
Maximize our core strengths



## Scaling Network for Growth

**\$1 billion**

*Projected growth  
per year*



2010

← Estimated →

2015

**Strategic Services Revenue**

### *Data explosion drives connectivity demand*

Expanding fiber to 1 Million business  
customer locations

Expanding 4G LTE to 300 Million POPs

### *Integrated IP Networks*

IP Wireline (VPN, Ethernet, Broadband)

Mobility (4G LTE, DAS)

Platform for Growth

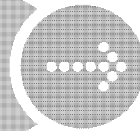
**\$140 billion**

**Data Transport  
Opportunity\* by 2015**

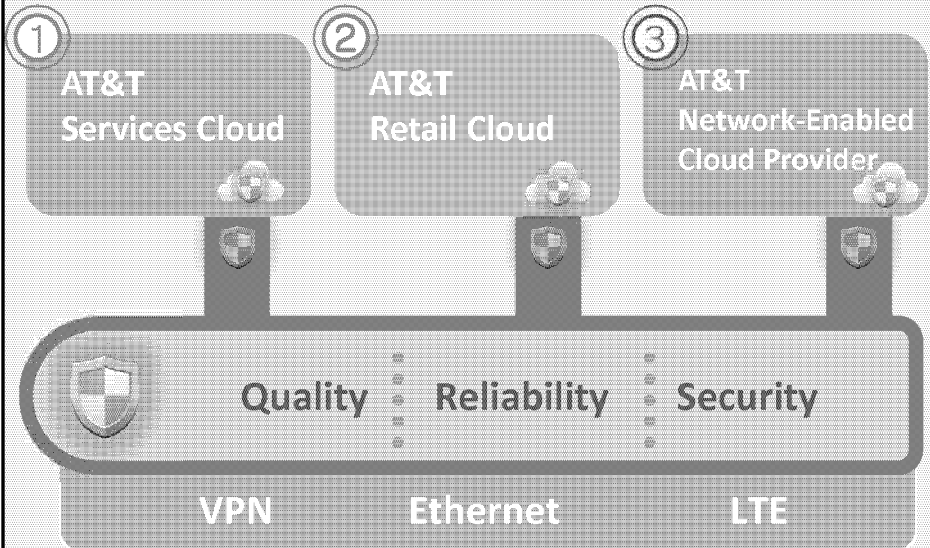
\*Gartner Forecast: Enterprise Network Services, Worldwide,  
2009-2016 3Q Update, August 2012



## 2 Differentiate with Platforms



### Cloud: A Multi-Billion-Dollar Business Opportunity



*Software and content delivery moving to the cloud*

*AT&T's core network strengths position us to lead*

**\$183 billion**

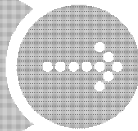
Cloud Opportunity  
by 2015\*

\*Gartner Forecast overview: Public Cloud Services, Worldwide, 2011-2016, 2Q Update, August 2012



2

Differentiate with Platforms



## Security: A Multi-Billion-Dollar Business Opportunity

24 days on avg. to repair

\$8.9M avg. cost per year

102 attacks / week

In past  
2 years



Cyber attacks  
have **doubled**  
Cost of cyber attacks  
have **increased 40%**

Ponemon Institute: "2012 Cost of Cyber Crime Study", October 2012

### *Increasing threats*

Cyber Attacks

Internet connected clouds

### *AT&T is positioned to lead*

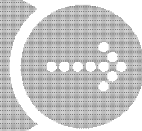
800+ Security Professionals with deep  
experience in networks and mobility security

**\$41 billion**  
Security Opportunity  
by 2015\*

\*Gartner Forecast Analysis: Security Services Market,  
Worldwide" October 2011

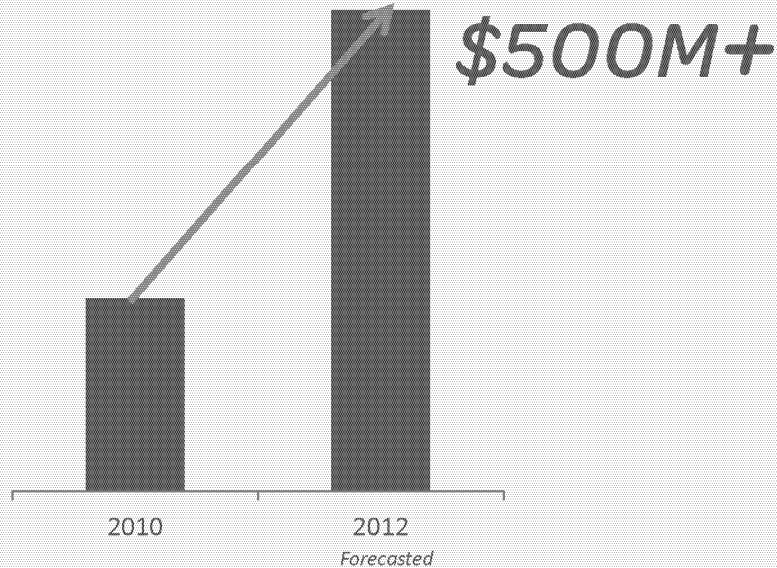


### 3 Deliver integrated solutions



## Mobility Solutions: A Multi-Billion-Dollar Business Opportunity

### AT&T Mobility Solutions Revenue



*Address a mobile-centric workplace*

*AT&T is positioned to lead*

Generating \$500M+ in annualized revenues with a 60% growth rate

40,000+ Business Customers using Integrated Mobile Applications

## \$20 billion

Enterprise Mobile Solutions and Applications Opportunity\*

\*ABI Research, "Enterprise Mobility Market Data", September 2012.  
BERG Insight, "The Global Wireless M2M Market", April 2012

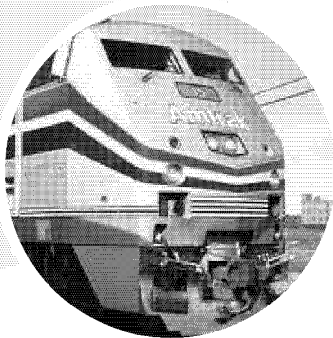


## 3 Deliver integrated solutions



## Transforming Business

*Customer  
example*  
**Amtrak**



### Transform Amtrak's Business Process

Amtrak gains potential  
annual revenue increase  
of tens of millions

In case of emergency,  
Amtrak now knows  
exactly who is on the train



### Deliver End to End solution

Mobile Credit Card payment

Bar Code Scan

AT&T Cloud Solutions

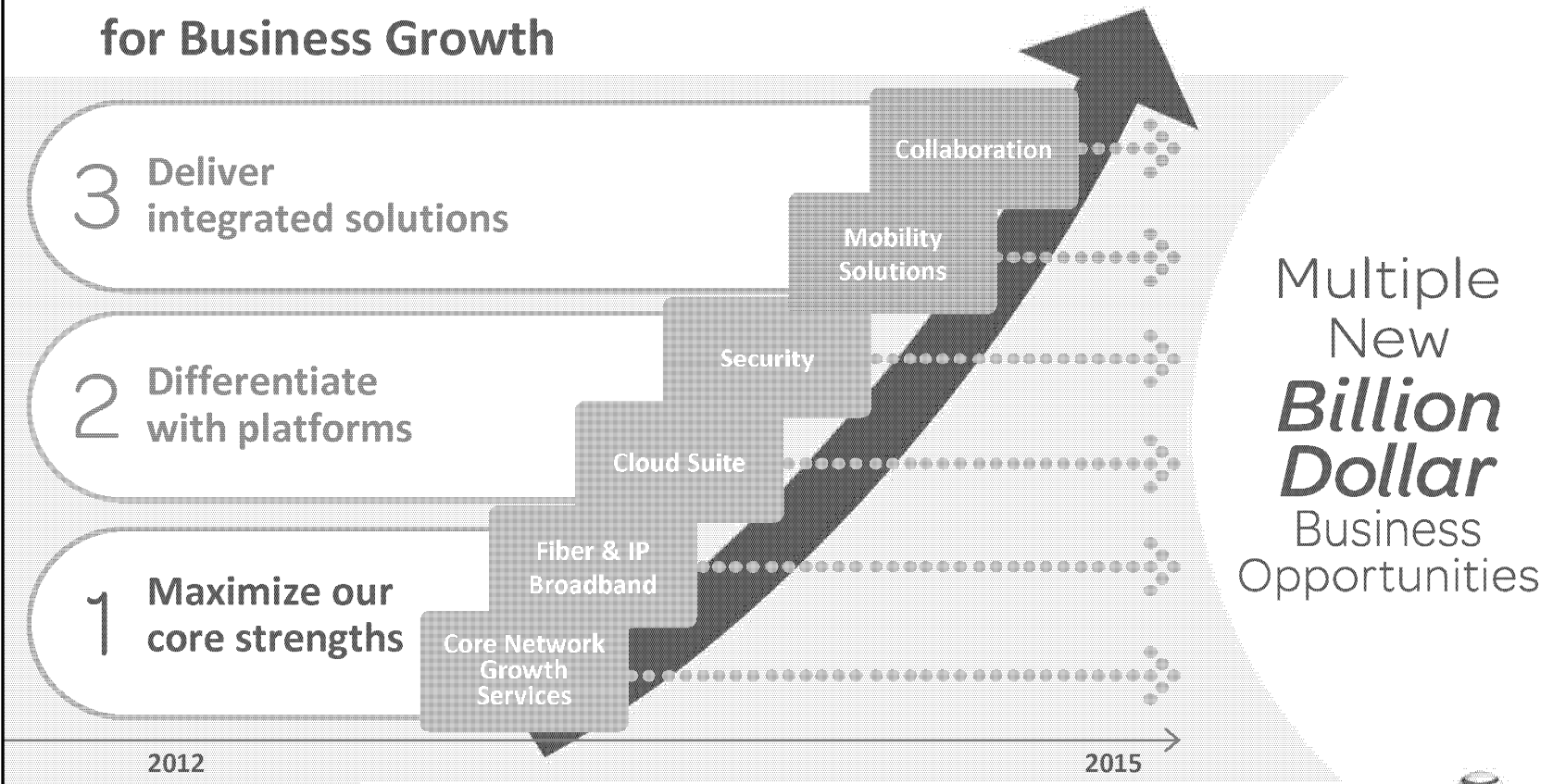
Wi-Fi and Satellite Coverage

VPN Network





## Executing Three-Prong Strategy for Business Growth





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# Financial Summary

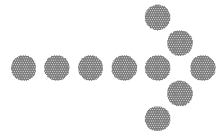
John Stephens

*Sr. Exec. VP & Chief Financial Officer*

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# Agenda



## *Laying the Financial Foundation*

- *Solid Execution*
- *Solid Balance Sheet*

---

## *Investment Implications*

## Laying the Financial Foundation: Solid Execution

**Accelerating Revenues** – 2.6% growth last quarter, excluding Ad Solutions

---

**Transforming Revenue Mix** – 81% of revenues from high growth areas

---

**Increasing Margins** – 20% year to date, up 70 basis points

---

**Growing Earnings** – up 8% year to date excluding Ad Solutions

---

**Cash Flows at Record Levels** – both operating and free cash flow



## Solid Balance Sheet: Returning value to shareowners

### Dividend Increase

Announced Today a 2.3%  
or \$0.04 per year increase

29 consecutive years of increases

### Share Repurchases

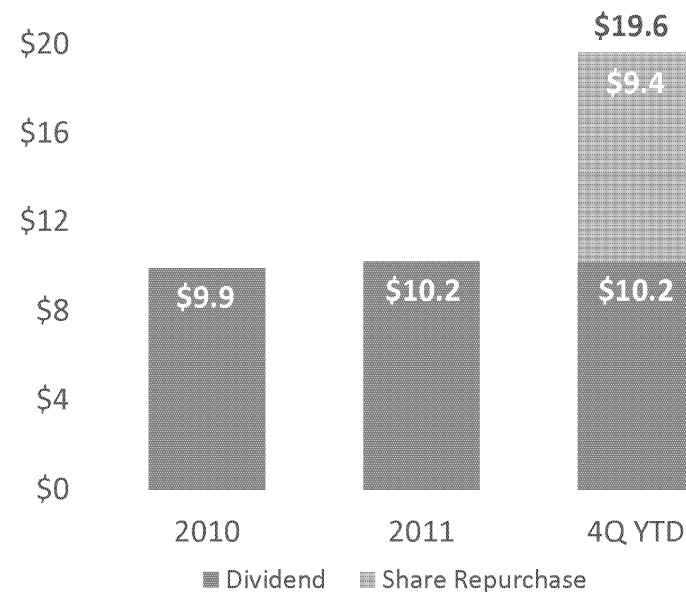
Nearing completion of first  
300 million share authorization

Lowering 2013 annual dividend  
payments by \$0.5B

Buybacks allow for improving  
dividend coverage

### Value Returned to Shareowners

(Year to Date \$B)



## Solid Balance Sheet: Pension Plan and Health-Care Costs

### Pension Plan Funding

Increases funding by \$9.5B  
pending DOL approval

Employee/Retiree security

Long-term pension funding solution

Cash efficient

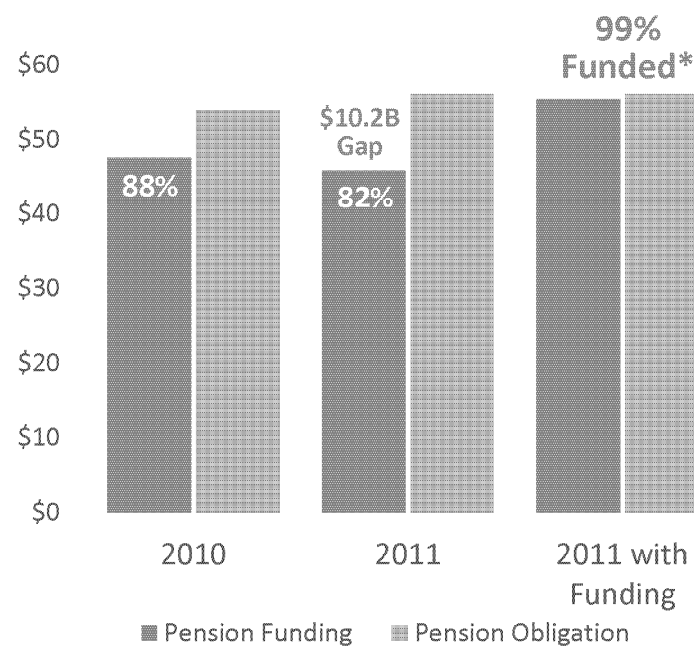
Plan essentially funded

### Health-Care Costs

Improved Plan Design

Cost sharing improving

### Pension Plan Status (\$B)



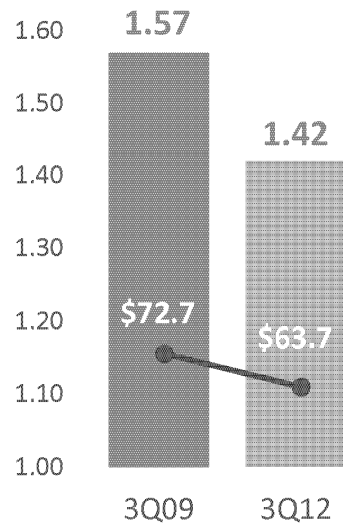
\*Future funding levels subject to change



## Solid Balance Sheet: Improving Debt Metrics

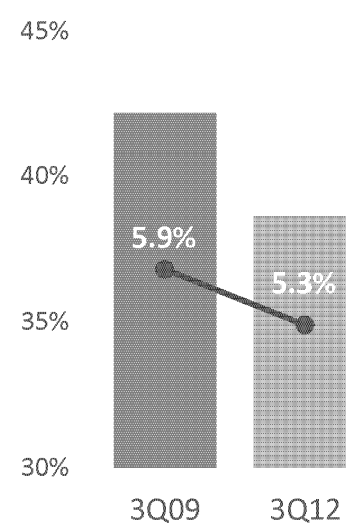
### Net-Debt-to-EBITDA

— Total Debt (\$ Billions)



### Debt Ratio

— Average Interest Rate



### Balance Sheet Strength

Debt balances have declined \$9B over last three years

- Since 3Q09, refinanced \$20B of debt
- Lowered average interest rates by 60 basis points over last three years

Net-Debt-to-EBITDA of 1.42

Continue to be opportunistic in the debt markets



# Financial Implications Project Velocity IP

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## Financial Implications: VIP Capital Investment Plan

### *Wireless Capital – \$8 Billion*

LTE extension to 300m POPs by 2014

Densification and small cell

Investment covers 99% of wireline  
service area

Average spending to be approximately  
60% of total during plan

### *Wireline Capital – \$6 Billion*

IP broadband to 75 percent  
of customer locations

U-verse/IPDSLAM expansion

Speed upgrades

Business fiber deployment

Legacy system efficiency  
improvements

*Integration of wireline and wireless network  
provides unique advantage*



## Financial Implications: Capital Spend Plan and Intensity

**Capital Spend approximately  
\$22B ... per year through 2015**

Provides platform for  
new growth opportunities

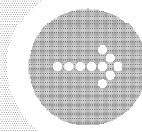
Free cash flow after dividend to  
remain positive and provide  
for investment flexibility

Strong financial payback

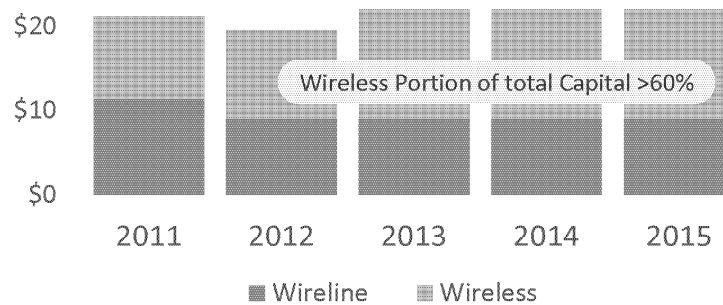
### Capital Intensity

Move to the high end of range  
over next two years

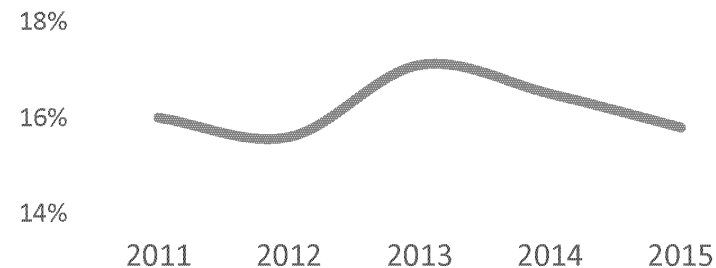
Return to normal levels in 2015



**Capital Spend (\$B)**

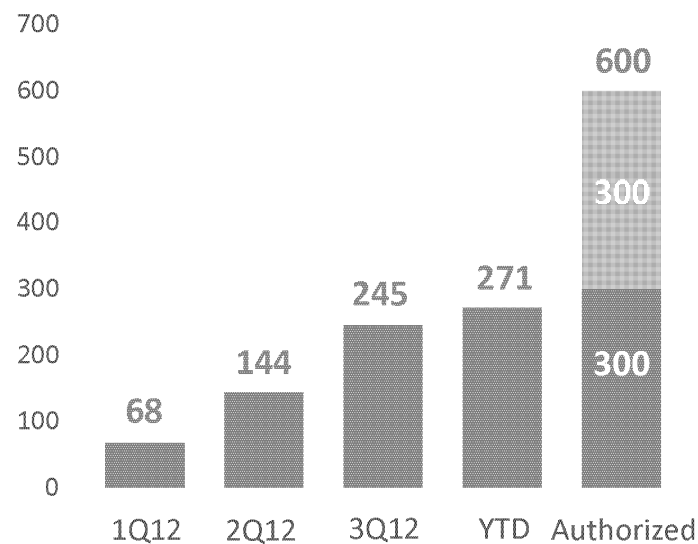


**Consolidated Capital Intensity**



## Financial Implications: Share Repurchases

Cumulative Shares Repurchased (M)



### Share Repurchases

271 million shares repurchased

Second 300 million share authorization approved in July

Expect to continue buybacks

Dividend yield greater than cost of debt

Buybacks support earnings growth and improve dividend coverage



## Financial Implications: Debt Metrics

### Net-Debt-to-EBITDA

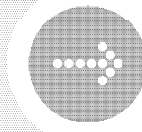
Long-term goal maintain a credit rating in the A range or higher

Plan moves to approximately 1.8 over next two years

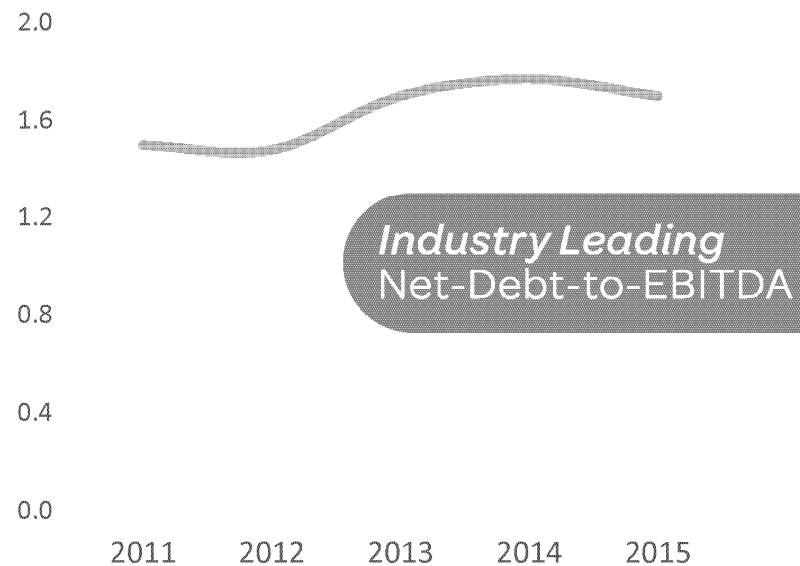
Trends back down in 2015

Change in ratio aligns with lower interest costs and debt capacity

Debt capacity supports continued share repurchases



### Net-Debt-to-EBITDA



## Financial Implications 3-Year Outlook: Revenue, Margins and EPS

### *Consolidated Revenues*

*Revenue growth trending  
to GDP plus 100 basis points*

- Accelerating growth after investment
- Wireless service revenue growth mid-single digit or better
- Wireline turns positive with U-verse growth and stabilizing business revenue
- Assumes stable economy

Guidance does not include one-time significant items that may occur such as mark to market pension adjustments, impairments and other items.

**90%**  
of total revenues  
from growth drivers  
by 2016



## Financial Implications 3-Year Outlook: Revenue, Margins and EPS

### *Consolidated Revenues*

*Revenue growth trending  
to GDP plus 100 basis points*

- Accelerating growth after investment
- Wireless service revenue growth mid-single digit or better
- Wireline turns positive with U-verse growth and stabilizing business revenue
- Assumes stable economy

### *Consolidated Margins*

*Continue to expand  
during investment  
period and beyond*

- Wireless service EBITDA margins expand
- Wireline EBITDA margins:
  - Under pressure initially due to investments and subscriber acquisition costs
  - Expand in 2016 and beyond



## Financial Implications 3-Year Outlook: Revenue, Margins and EPS

### *Consolidated Revenues*

*Revenue growth trending to GDP plus 100 basis points*

- Accelerating growth after investment
- Wireless service revenue growth mid-single digit or better
- Wireline turns positive with U-verse growth and stabilizing business revenue
- Assumes stable economy

### *Consolidated Margins*

*Continue to expand during investment period and beyond*

- Wireless service EBITDA margins expand
- Wireline EBITDA margins:
  - Under pressure initially due to investments and subscriber acquisition costs
  - Expand in 2016 and beyond

### *Earnings per Share*

*Mid-single digit growth or better during investment period*

*Opportunity for incremental growth going forward*

Guidance does not include one-time significant items that may occur such as mark to market pension adjustments, impairments and other items.



## Financial Implications 3-Year Outlook: Revenue, Margins and EPS

### *Consolidated Revenues*

*Revenue growth trending to GDP plus 100 basis points*

- Accelerating growth after investment
- Wireless service revenue growth mid-single digit or better
- Wireline turns positive with U-verse growth and stabilizing business revenue
- Assumes stable economy

### *Consolidated Margins*

*Continue to expand during investment period and beyond*

- Wireless service EBITDA margins expand
- Wireline EBITDA margins:
  - Under pressure initially due to investments and subscriber acquisition costs
  - Expand in 2016 and beyond

### *Earnings per Share*

*Mid-single digit growth or better during investment period*

*Opportunity for incremental growth going forward*

Guidance does not include one-time significant items that may occur such as mark to market pension adjustments, impairments and other items.

*VIP investment positions AT&T  
for stronger revenue, margins and EPS growth*